

Dow, Sheila C.; Hein, Eckhard; Lavoie, Marc

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‘Central banks, whether they like it or not, affect the distribution of income’

Interview with Sheila Dow



Since 2010, Sheila Dow has been Professor Emeritus in Economics at the University of Stirling, Scotland. Previously, she held a Personal Chair at the same university. She is a Fellow of the Academy of Social Sciences. In 2023, she was awarded an Honorary Doctorate in Economics by the University of Thessaly. Her main field is economic methodology, and how it applies to post-Keynesian economics, but she is well-known not only for her work in the history of economic thought and also for her works in monetary economics and monetary policy, including regional and international finance.

Sheila, how did you get interested in economics? How did you get in contact with unconventional, heterodox, post-Keynesian economics?

I remember borrowing Adam Smith's *The Wealth of Nations* from the local library when I was a teenager. But aside from that, I got into economics through my husband, Alistair Dow. We met as undergraduates at St Andrews University in Scotland. He was already studying political economy, and it seemed really interesting. I was doing a pure maths degree but decided that a combination of the two would make for a nice balance. One was really interesting and close to the real world. The other was aesthetically very satisfying. The professor in St Andrews took a neo-Austrian approach and objected to combining political economy with maths. It never occurred to me at that time to put them together anyway so he needn't have worried.

I've always been taught and engaged in non-conventional economics (Dow 2023). My St Andrews education (1966–1970) was in a political economy department, and the subject was taught historically, covering macroeconomic theory, social economics, capital theory, economic history, and a full range of things, so that I started off assuming that this was normal. It was only as time went on that I realized that this wasn't normal within economics departments. I interspersed my degrees with several years working, first of all at the Bank of England (1970–1972), and then for the government of Manitoba in Canada (1973–1977). That reinforced a political economy approach. The second department I was in was at the University of Manitoba in Canada (1972–1973), which was very eclectic, a deliberately multi-perspective department. So, I continued along a political economy line. The next department I was in was McMaster University, in Ontario, Canada (1977–1978). It was mostly neoclassical, but a rather open-minded version of neoclassical economics. So, it was a great education in neoclassical economics, but I wasn't prevented from doing my research from a political economy perspective. And then I was in the

University of Glasgow (1978–1979), which had a traditional Scottish political economy perspective. So, I've been very fortunate that I've been able to operate in a very congenial environment, which I know is not usual.

When you were at McMaster, there were other students that were future post-Keynesians, weren't they?

Yes, that's right. John Smithin and Omar Hamouda were there at the same time. That just illustrates the fact that it was a pretty open-minded department. One of the members of staff there who influenced me particularly was Syed Ahmad, who taught capital theory. I remember him telling the story of being at the luncheon in Cambridge, where Hicks, out of the blue, produced the letter that Keynes had sent him, seemingly approving of the IS-LM framework. Another thing I remember is when he was teaching monetarist economics, their logic failed him, and all that was left for him was to laugh.

Who were the academic teachers or the senior colleagues who have impressed you most when you were at your graduate student stage?

In Manitoba, I did a master's by research, lucky enough to be supervised by Clarence Barber, the originator of the effective protection argument (Barber 1955). And then jumping forward to Glasgow, where I did my PhD (after a year at McMaster), my supervisor was Tom Wilson, the originator of the super-multiplier (Wilson 1968). He was another amazing character. He had all sorts of experience in the 1940s working with the British government, as well as being innovative in macroeconomic theory and policy. So, I was very lucky to work with him. There were other people I really enjoyed working with in Glasgow, such as Andrew Skinner. John Foster invited Vicky Chick to give a seminar in Glasgow. That was the first time I met her. We hit it off immediately and developed a really close friendship and academic relationship from then on. She was always a very strong influence on the way my work developed.

Then in 1979, I left Glasgow for Stirling, where I am still based. There I was influenced particularly by Brian Loasby. I joined the department at the same time as Peter Earl, with whom I've done a lot of work. He also was very much influenced by Brian Loasby. Some people have referred to the group around Loasby as the Stirling School. Stirling was a very congenial environment with a range of perspectives and lots of debates.

As for many post-Keynesians, Geoff Harcourt was another major influence. My first publication was something I wrote when I was at McMaster, on capital theory. It was about the capital controversies (Dow 1980), and Geoff wrote to me in appreciation of the article. I was so touched by this! That kind of thing means so much to a young scholar. I hope I've been able to encourage young scholars in the same way. Geoff Harcourt was also an exceptional person in terms of bringing people together.

At that time, the *Journal of Post Keynesian Economics* was just starting off and that had a tremendous impact. Alistair and I had our own little heterodox community, the two of us, but the *Journal* really revealed the fact that there is a global heterodox community out there. I suspect a lot of other people felt that as well. Sidney Weintraub encouraged me with things that I submitted to the *Journal of Post Keynesian Economics*, as did Paul Davidson later on. They were another influence that I really appreciated. The list could go on and on.

Well, maybe we can stop at this stage and talk about your work. The concept of pluralism is certainly something you've been discussing yourself. Some people, like David Colander (2000), have said in the past that neoclassical economics or mainstream economics is much more pluralistic than

it used to be. But others, like Geoff Hodgson (2019), have the opposite opinion, saying: 'Well, no. Max-U is still there, it's no more pluralistic than it used to be'. What is your view on this?

I think we have to be careful about what we mean by pluralism. When people talk about mainstream economics being pluralistic, mostly what they're talking about is theoretical pluralism, different types of theories. Now, there's obviously been some methodological development within mainstream economics, but basically the methodological approach is still the same as it has been for decades. For all the new theoretical developments, I would say it's still a monist approach. In a way, the pluralism debate occurs within heterodox economics more significantly in that there are some who would like to emphasize the unity within heterodox economics while others want to emphasize the different schools of thought within heterodox economics. I veer towards the latter. There's certainly unity in the sense of understanding the world as an open system, and needing an open system of knowledge to understand it. But the way in which different groups understand the real world as an open system is open to a range of differences, and that's where the schools of thought come in. Austrians think in terms of entrepreneurs and a very micro-based case-study type of analysis, which is different from the way post-Keynesians think. Agency is important, but structure plays a massive part in the post-Keynesian approach, which it doesn't in the neo-Austrian approach. That comes from ontology, the way the world is understood.

Right. Still staying within mainstream economics: very recently, you have been wondering whether modern mainstream macroeconomics is a coherent research program, opposing its theoretical core to its empirical work and policy advice (Dow 2021). Can you recall the arguments that you made in that paper to our readers?

Yes. There is a very interesting set of discussions. One set was based in Oxford, investigating the state of modern macroeconomics. What was clear was the uncomfortable relation between policy-focused empirical modelling and DSGE modelling from a pure general equilibrium type of perspective. That discomfort has been there for a long time. It arises because the whole idea of opposing deduction to induction is not a helpful way of looking at things because each requires some of the other. But it was interesting to see where that discussion ended up in the Oxford project. Those who were developing policy models had as a goal, ultimately, to fit them into a DSGE framework. In other words, they wished that the set of DSGE assumptions might evolve in a way that they found satisfactory, ending up with a unified mainstream approach – which strikes me as incoherent. I mean, just hoping something's going to be so, doesn't make it so. And the hope for unification has been there all along (Dow 2022). You can find statements from one year to the next of this aspiration, that sooner or later there will be a complete general equilibrium model that is empirically applicable. But we're not there yet. And I can't actually see how we get there on the basis of how it's been discussed so far.

Let's get back to heterodox economics or post-Keynesian economics. You mentioned Victoria Chick, and you also mentioned that you did some studies in mathematics. Victoria Chick (1998) has argued that formalism is fine as long as it remains in its place. What are your views on formalization and mathematics in economics and in particular in heterodox economics? And what do you think of the claim that was made by a follower of Tony Lawson, his name is Yannick Slade-Caffarel (2019), who argued that there are consistent heterodox economists and inconsistent heterodox economists? To sum it up, what's your view on formalism in general and formalism in post-Keynesian economics?

I agree with Victoria Chick that formalism has its place. I mean, this would be part of a pluralist methodology, which is yet another level on which pluralism can apply. This follows Keynes's methodology that we abstract in order to put together an argument as an aid to clarifying understanding. But the abstraction should be such as to allow us to reverse simplifications so that we can then think about applying the abstraction to a real circumstance. The problem with the mainstream approach, of course, is that the assumptions aren't the kind that you can reverse. They are not simplifications. So, you refer to the critical realist debate over these things, which puts things rather differently. It boils down to what we mean by consistency. Normally, consistency means formal consistency, whereas you could talk about consistency in the sense of consistency with real experience, for example. That would justify an argument for making simplifying assumptions in order to abstract, which one can do using mathematics. Many post-Keynesians do, of course. And I can't actually remember Slade-Caffarel's precise argument about the inconsistency. Is this related to Tony Lawson's (2013) argument about who's neoclassical and who isn't?

Not necessarily related to that argument, but certainly related to Tony Lawson. I used to believe that he thought that it's fine to use some mathematics under some circumstances, but it seems to me that his views on this have changed. It's as if 'well, no, mathematics can never apply to the world as we know it'. And in that sense, Slade-Caffarel was complaining that 'you got all those post-Keynesians who are using, say, stock-flow consistent models'. And he would argue that those guys are inconsistent: they claim to be part of the heterodoxy, but in the end they are using those formalizations and mathematical tools, and therefore they are inconsistent.

That's why I was referring to the different possible meanings of consistency. And that argument applies to a particular framework. If you're applying it to a framework which is pluralist, methodologically pluralist, allowing a range of styles of argument in order to build up a more robust argument, then it's not inconsistent. The pluralist point is that no one method, including formal mathematics, is enough for a complete argument; additional lines of argument are required. Then there are obviously arguments about where mathematical modelling is appropriate and how it has been used.

Let me put it another way: I (Marc Lavoie) have been to some conferences when I was in France, run by Institutionalists and other heterodox economists, to which post-Keynesians were participating. I could feel that several Institutionalists were not at ease with the post-Keynesians precisely for this reason. Post-Keynesians are using some mathematics or algebra, and also some econometrics. So, do you feel at ease, or are you uneasy with that?

It's my point about schools of thought. It's not that Institutionalists and post-Keynesians are miles apart in terms of understanding the world to be an open system. And post-Keynesians think institutions are important, just like Institutionalists. But each group chooses a set of methods to suit the way they look at things. I have to say that my own work moved away from maths. I haven't used it for quite a long time now. But that doesn't mean to say that I don't see it having a positive role. It seems to be a useful part of post-Keynesian economics (and I emphasize 'part'). And, you know, it depends on how you define post-Keynesianism, of course.

How do you define post-Keynesianism? Or is a post-Keynesian anybody who deems him- or herself to be a post-Keynesian? So, how does that relate to your methodological perspective, to

this Babylonian approach that you have put forward quite prominently (Dow 1990, 2012a)? There have been some attempts at defining what – with a broad tent perspective – post-Keynesianism can be, by Marc (Lavoie) in particular. What is your view on that? Is this worthwhile pursuing or is this, from your methodological perspective, an exercise which is perhaps not so relevant?

I wrote a book back in the 1980s about macroeconomic thought (Dow 1985a), where I used the schools of thought framework, and I agonized a bit over post-Keynesian economics and how I should define it (see more recently Dow 2013). And I decided the way to do it was: who was talking with whom? And I don't mean necessarily agreeing, but who was debating with whom? I thought about the Trieste summer school and the Udine conference where there had been really fierce debates. But people were debating. You know, if there's communication, then that strikes me as significant. That shows that there's something in common, that words are being used in a somewhat common way. Obviously, there are differences. I would look at conferences and journals now and see who the people are and what type of work is being done. And from that I would take a definition of post-Keynesian economics. It's a shorthand. Lots of people are at the edges of schools of thought. But I find it a useful shorthand so that if I say I'm a post-Keynesian, then somebody else will have some notion about how to start communicating with me. And that's the argument for pluralism actually, that everybody should be prepared to make the effort to try and figure out where other schools of thought are coming from in order to debate, not only to improve their own understanding of their own position but also to get useful ideas from other positions.

Well, this is a good way to define it. Whether people are discussing with each other, then at least, as you say, there is a common ground. Let us deal with another methodological issue: the microfoundations of macroeconomics. You have written about this already some 40 years ago (Dow 1985b), and you've come back on the topic recently (Dow 2016). And, as you know, John King (2012) wrote a whole book about this and he puts post-Keynesians into three boxes with respect to microfoundations. There are those who are the supporters of the idea, those that are the opponents, and those that are sitting on the fence. Where would you put yourself?

Well, I agree with John King that talking in terms of microfoundations is not helpful, and it certainly doesn't fit with a post-Keynesian approach. It's a question of how one divides up the subject matter and how you treat the divide. And I would say it was a characteristic of post-Keynesian economics that the cutting up for the dividing is provisional. It's for practical purposes that we draw distinctions. But these distinctions are open, permeable and provisional. They can be changed for different purposes. This feeds into the idea of thinking in terms of schools of thought within an open-system heterodox economics. These dividing lines are helpful to capture something, even though they are not absolute or unchanging.

Let us leave aside methodology. As you said, you met Peter Earl when you were in Stirling University and you wrote a book with him on monetary economics (Dow and Earl 1982). More recently, you've been writing about central banking and its roles and innovations (Dow 2017, 2019, 2020). Could give us your thoughts about a few issues, such as whether the central bank should have a role with respect to the ecological transition, or whether the central bank should be issuing digital currency, or any other thoughts you have about central banking?

Well, in terms of green issues, I think the central bank should be actively engaged with this, as should the full range of the State. It's unfortunate that central banks, generally speaking, are set up as independent of government. Unless there's a really serious attempt

to coordinate policy between the government and its central bank, then policy is not going to be as effective as it might be. From one point of view, it's encouraging that central banks have become more interested in green issues, and Mark Carney of the Bank of England was a leader in this. But the approach they have tended to take is to focus on protecting banks from green risks. You know, all the ESG [environment, social, and governance] agenda has been addressed at making banks wake up to the risks that are attached to particular assets that are exposed to natural disasters of various sorts. So, there's a move in the right direction, but it's not enough. I mean, what central banks could be doing for example is steering their asset purchases to green assets. It's not fashionable for central banks to be seen to be encroaching on government policy in that way. But central banks, whether they like it or not, affect the distribution of income. They affect real economic structures, whether they talk about it or not. And there's no reason at all why they shouldn't use their position to promote green goals, in a variety of ways.

Digital currencies is another big issue, and I'm very wary of the idea of central bank digital currencies. It's something that I'm actively thinking about; I don't have a final position. I can see for developing economies, given their particular institutional structures and particularly their financial sectors, that there could be an argument for it. But proper attention isn't given to the fact that if there was a central bank digital currency, this could have massive implications for the retail banking system. And the idea that the central bank would decide how much digital currency to produce, that's really core monetarism. The notion that you can actually form a serious view about how much money should be in the system totally ignores issues of uncertainty, and the fact that asset holders would tend to hold liquid assets in apparently more rewarding forms than central bank digital currencies – until there's a panic. And then demand for money would be diverted to the central bank currency and the retail banking system would be in huge difficulty. That strikes me as a fundamental problem. It has been discussed, but I don't think it has been given proper attention. Central banks in developed countries, however, are showing some welcome reluctance to actually get started on setting them up, so maybe behind closed doors there's enough awareness of all these issues.

We always ask our interviewees to provide some advice to young researchers. In your case perhaps it could be a more specific one, in the sense that there are several economists who believe that one shouldn't spend any time dealing with methodological questions. So, what argument could you provide to a young researcher who wishes to go into methodological issues?

I would encourage them – you'll not be surprised to hear! It involves learning about the discipline and learning how to think about it, learning how to make your own choices about which direction to take methodologically, so that you launch yourself into the profession, fully aware of what you're doing and of the choices that you've made. Having said that, I would also advise building some expertise in an applied area. One reason for this is the following: as a realist, I would like to encourage a realist methodological approach, which requires some in-depth understanding of some aspect of socioeconomic systems. So, expertise in an applied area can give the methodology bite. I just got into it because I couldn't understand why people were arguing the way they were, in macroeconomics for example. It didn't make sense to me. Why were grown-ups so worried about the precise slopes of the IS and LM curves? It motivated me to get into methodology, to try and figure out what was going on; similarly with the capital controversies. But nowadays young researchers can benefit from a wide range of literature on methodology. Dow (2002, 2012b) are my book-length contributions;

when I started, there wasn't really much of a field to get my teeth into. But the other reason, of course, for having an applied area, is employment. There are courses in methodology, or the philosophy of economics. But generally if you want academic employment you need to be able to offer courses in other fields. So, I would recommend it for that reason as well.

Okay. Well, thank you very much Sheila.

This interview was conducted online by Eckhard Hein and Marc Lavoie in April 2024. We thank Samuel Küppers, Berlin School of Economics and Law, for the transcription.

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